

Client: Chi Med
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Our Chinese drugs tip looks healthy after doubling in three years

UPDATE

THE Chinese spend an average £160 per head a year on healthcare compared with more than £5,000 in the US. The figure is so low because for decades Chinese communism did not involve state healthcare. If people fell ill, they paid for treatment or went without.

However, government spending on healthcare rose tenfold from 2005 to 2013, hitting £80 billion last year and further expansion is scheduled for years to come. Fast-growing drugs firm **Hutchison China MediTech** is well-positioned to reap the benefits.

Midas recommended the shares in May 2011, when they were 447½p. After struggling during that year, they have progressed in leaps and bounds and are now trading at 1032½p.

City brokers believe they

have further to run, but investors who have more than doubled their money in the past three years may be wondering if they should hedge their bets and sell some stock now.

Founded in 2000, Hutchison China MediTech was set up as a subsidiary of the giant Hong Kong conglomerate Hutchison Whampoa. Focused on developing, manufacturing and selling drugs and wellbeing products in China, the business, known as Chi-Med, listed on Aim in 2006.

The group has grown fast since then, running three main divisions: a consumer products arm selling wellbeing items such as organic tea and healthy

snacks; a healthcare arm selling prescription and over-the-counter drugs; and a research and development arm working on new drugs.

It is this last division which is expected to deliver the most exciting growth over the next few years. The firm has set up joint ventures with international players such as AstraZeneca, Johnson & Johnson and Lilly, and is in advanced trials on a number of cancer treatments.

Chi-Med is also working with Nestle on a drug based on traditional Chinese herbal remedies for Crohn's disease and related conditions.

News on the latest trial of this product is expected later this month and could trigger further investment by Nestle if results are good or a winding down of the trial if results are poor.

The healthcare business used to focus on traditional Chinese medicine – still the first option for many Chinese.

Increasingly, however, consumers take conventional

drugs alongside herbal remedies, so Chi-Med has broadened its offer.

The group sells more than 200 drugs, mainly for colds, flu and heart disease, and runs a sales force of more than 2,500 across 600 Chinese cities.

Until recently, Chi-Med sold only its own products, including two household

brands, but it now sells other manufacturers' drugs too, which should boost profits.

The consumer business has been slow to take off, as

many Chinese are as yet uninterested in designer teas and upmarket organic crisps. Looking further ahead however, this subsidiary has serious potential.

In the first six months of this year, group profits after tax doubled to \$6.4 million (£3.8 million) compared with the same period last year.

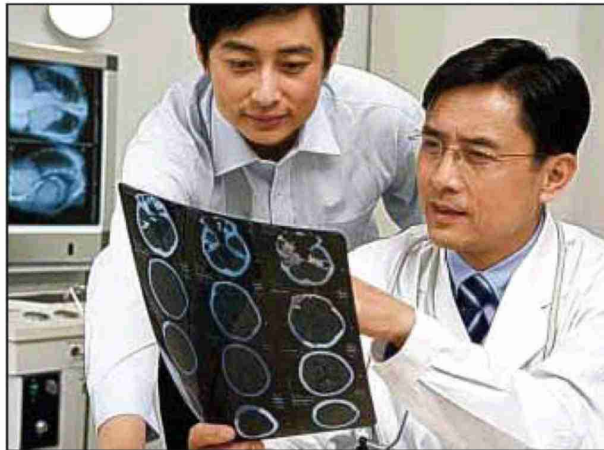
Analysts forecast a 45 per cent increase in full-year figures to \$17.5 million, rising to \$25 million next year.

►► *Midas verdict: Chi-Med has made good progress and should continue to deliver. Investors who bought in 2011 should hedge their bets and sell 50 to 60 per cent of their stock. New investors should buy on any short-term weakness.*

Traded on: Aim **Ticker:** HCM
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GOOD PROGNOSIS: Chinese spending on healthcare is rising